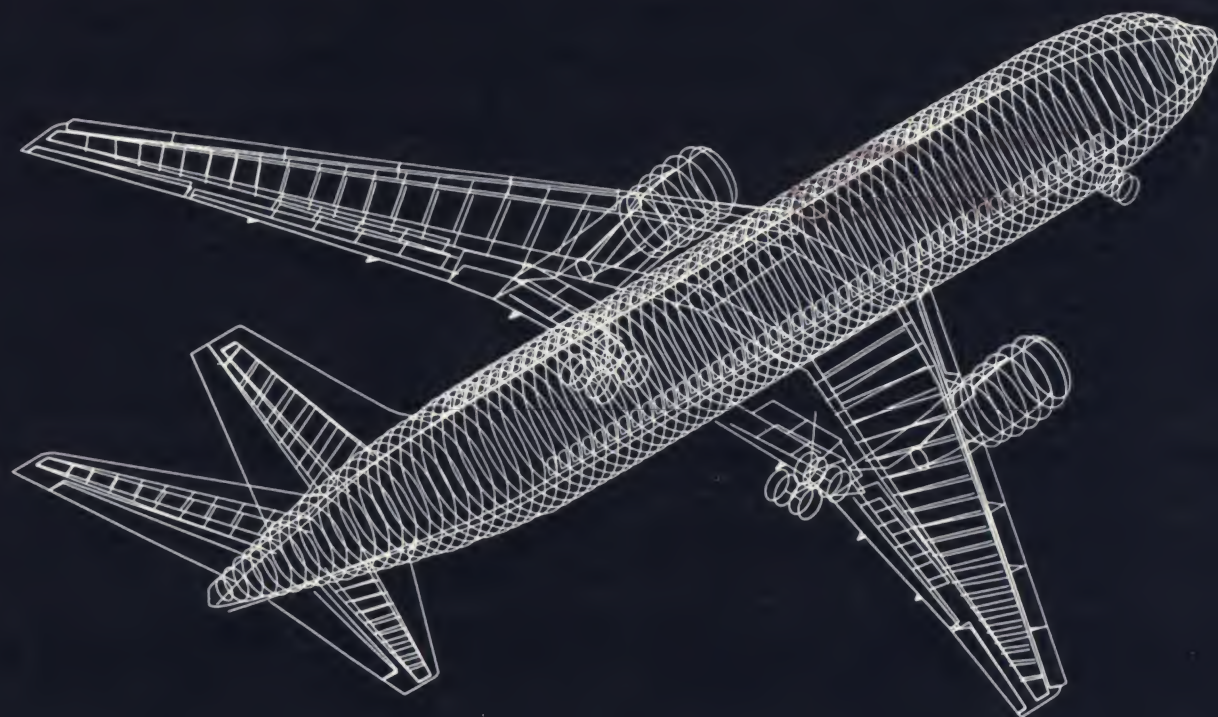
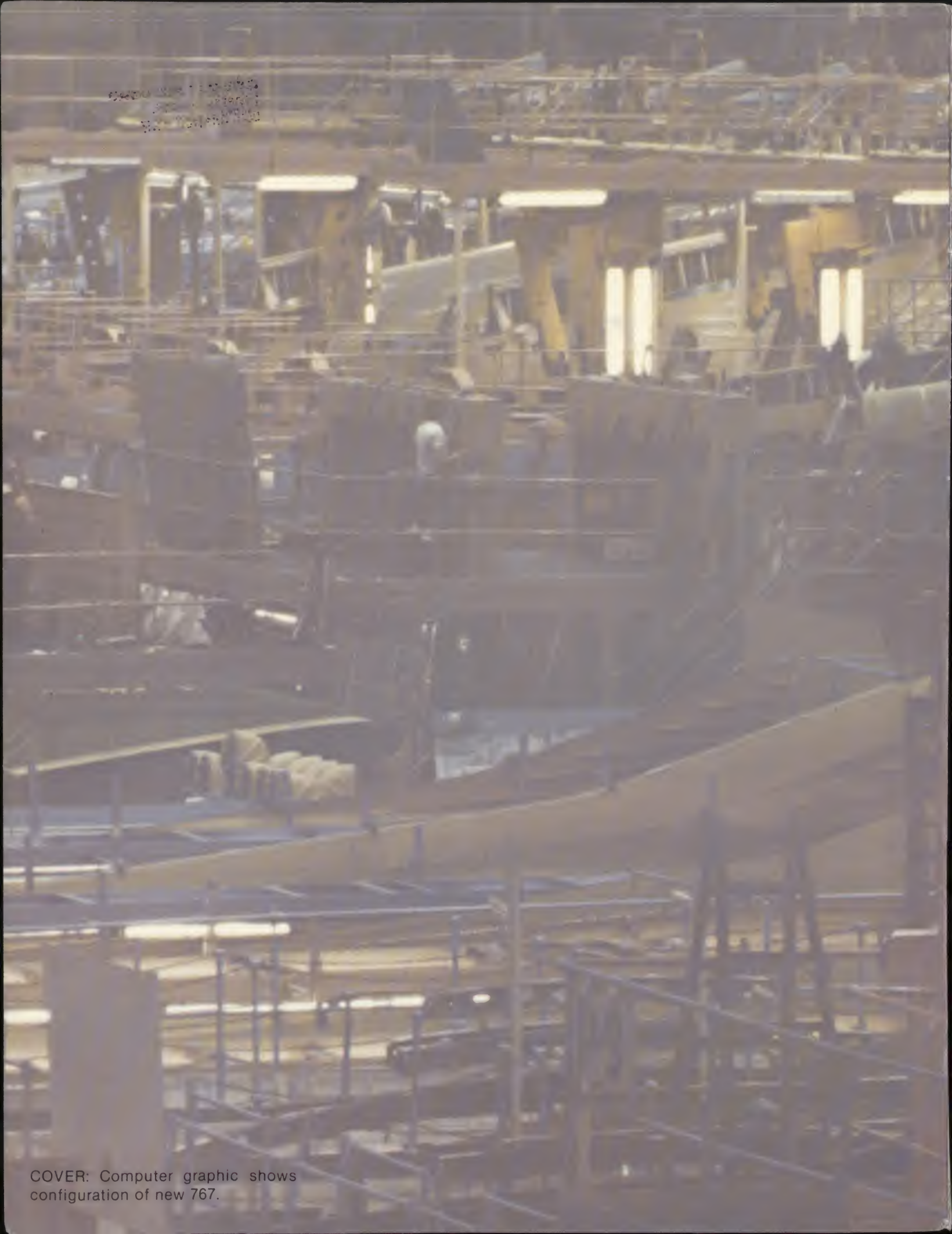


Boeing 1978 Annual Report





COVER: Computer graphic shows configuration of new 767.

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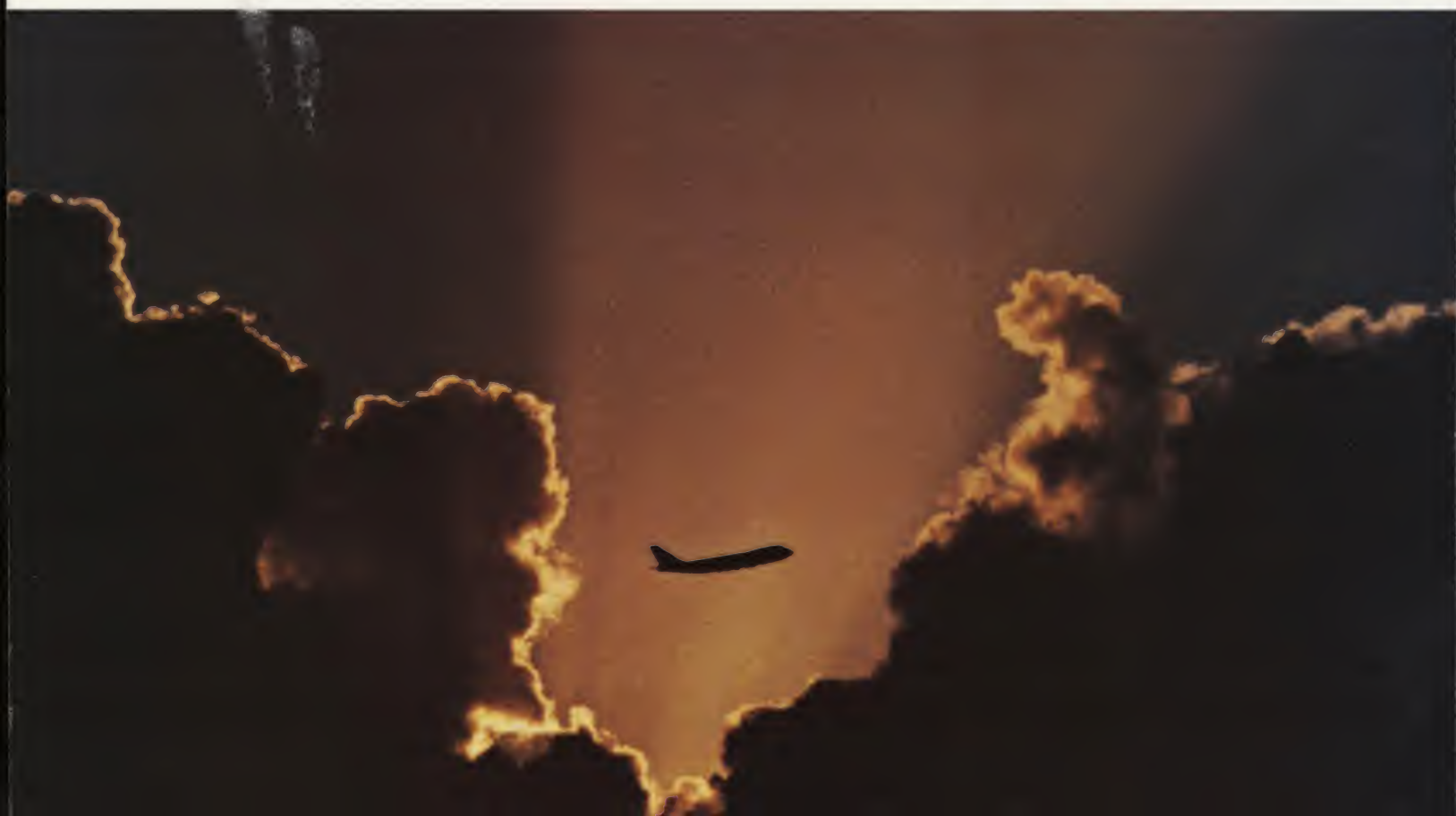
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The annual meeting of Boeing stockholders will be held at the offices of the company, Seattle, Washington, on May 7, 1979. Formal notice of the meeting, proxy statement and form of proxy will be sent to stockholders about April 1, 1979.

Highlights

Dollars in millions except per share data.

	<u>1978</u>	<u>1977</u>
Sales	\$ 5,463.0	\$4,018.8
Net earnings	\$ 322.9	\$ 180.3
Per average share outstanding	\$ 7.57	\$ 4.24
Percent of sales	5.91%	4.48%
Stockholders' equity	\$ 1,473.6	\$1,231.3
Per share	\$ 34.51	\$ 28.89
Cash dividends paid	\$ 83.2	\$ 36.2
Per share	\$ 1.95	\$.85
Salaries and wages	\$ 1,688.5	\$1,246.7
Average number of employees	81,200	66,900
Additions to plant, net	\$ 268.6	\$ 99.1
Depreciation of plant	\$ 85.8	\$ 71.4
Funded backlog at year end	\$11,153.6	\$5,917.0



Message to Stockholders

The strong demand for current models of Boeing's commercial jet transports and the decision to proceed with a new family of jet airliners highlighted the company's 1978 activities.

Net earnings increased from \$180.3 million in 1977 to \$322.9 million in 1978, raising earnings per share from \$4.24 to \$7.57. Sales rose from \$4,019 million in 1977 to \$5,463 million in 1978. The record earnings level was attributable to the same factors that have contributed to improved results for several years: continuing favorable performance on commercial jet transport and military programs; a high level of jet transport orders which have resulted in increased airliner production rates, and increased other income.

Backlog increased during the 12-month period from \$5,917 million at the start of 1978 to \$11,154 million. Although orders from commercial customers account for \$9,579 million, or 86 percent of this backlog, the U.S. government backlog increased from \$1,443 million in 1977 to \$1,575 million at the end of 1978.

New jet transport orders valued at approximately \$11 billion were announced during the year by 85 customers. Orders were received for a record 490 airplanes: 6 707s, 131 727s, 146 737s, 83 747s, 84 767s and 40 757s. To meet the demand for current models, production rates were increased from 15 per month at the beginning of 1978 to 19 per month at year's end and are projected to be at a 28-per-month rate in the fourth quarter of 1979. Based on firm orders, conditional orders and options, current plans are to maintain this production rate at least through mid-1981. Production

rates beyond that point will be dependent on prospective order activity. Current schedules provide for delivery of 6 707s, 135 727s, 79 737s and 72 747s, for a total of 292 aircraft in 1979.

The new orders were spurred by rapidly expanding passenger and cargo traffic growth and by escalating operational costs which dictated that



Where 747s come together—the final join at the Everett plant. Here, body, wing and tail structures are united to form a 747 superjet. Other scenes of the final join sequence are shown as background in the financial sections of this year's report, starting on page 18.

airlines add capacity and replace older, noisier and less efficient equipment in a timely manner.

The airlines' need to replace major portions of their fleets with newer, more fuel-efficient aircraft had been recognized for some time. In the 1972 annual report we announced that design studies were being undertaken for a new airplane with noise reduction as a major goal. The design effort was broadened and accelerated by the energy emergencies of 1973 and 1974 which established that in addition to noise, the cost and availability of fuel would have a significant effect on air transportation. In subsequent years Boeing evolved and refined its designs for advanced, quiet and fuel-efficient models that could be tailored to fit the airlines' principal operational requirements.

As a result, this past year we were ready with specifications for the 767 and 757 when the various factors which dictate market demand came into alignment. In mid-July United Airlines ordered thirty wide-body twinjet 767s for deliveries beginning in 1982. Four months later orders from American Airlines and Delta raised the 767 announced backlog to 80. American committed for 30 and Delta for 20 of the intermediate-to-transcontinental range models. In December Pacific Western Airlines of Canada ordered four.

The 757 program moved forward at the end of August when Eastern Airlines announced its intention to buy 21 of the smaller but highly efficient jet transports and British Airways announced it intended to buy 19. Both airlines propose to inaugurate service with their 757s in 1983.

Military, space and other sales to the U.S. government totaled \$1.6 billion as compared to \$1.5 billion in the prior year. Performance on

government programs was generally good, and the opportunities for continuing growth exist and remain a key company objective. More than 26,000 people, many of our most advanced facilities and major portions of our research are dedicated to providing the Air Force, Army, Navy and NASA the best weapons and space systems we can design and produce.

We are working on approximately 40 different government programs widely varying in size and purpose. Some involve military products such as the Minuteman missile system, the

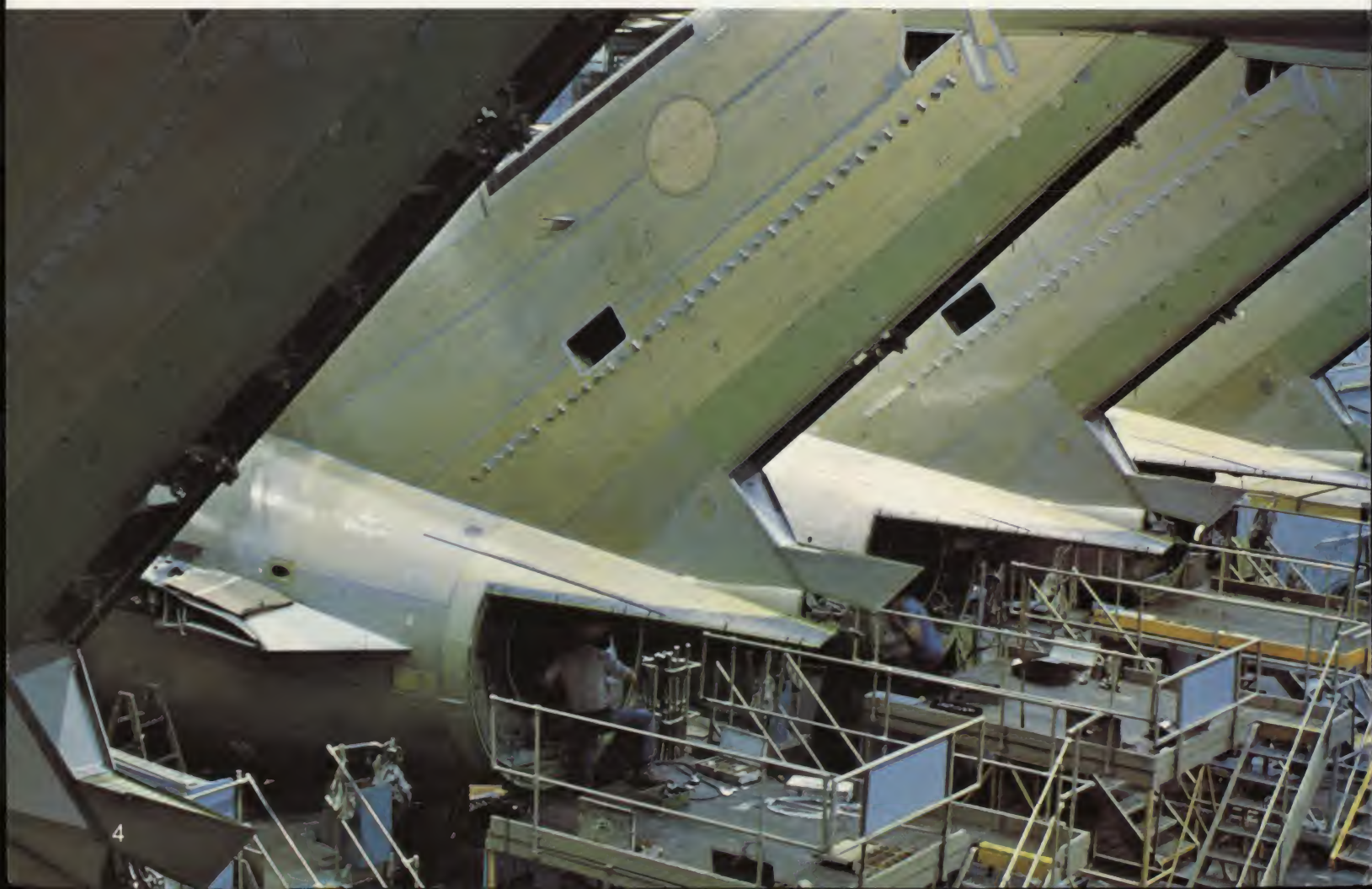
KC-135, B-52 and CH-46 helicopter where our task is to modernize the original equipment. New and improved systems will extend the service life of many of these products through the balance of the century.

Another category is mature and continuing production programs such as the Airborne Warning and Control System (AWACS) which has been in production for the Air Force since 1976. Another continuing production program is the CH-47 helicopter, originally built for the Army and now produced for that service, for export, and for civilian use. Our military hydrofoil program moved into production after many years of development. In this program five hydrofoil missileships are in production for the Navy. Their prototype, Pegasus, became operational with the Pacific fleet in 1978.

Major government sales potential exists in competitive developmental programs. We are competing to be the principal production source for the Air Launched Cruise Missile and the Advanced Medium Short Takeoff and Landing transport and believe our entries are well qualified to meet the requirements. The same situation exists with respect to our effort to win the production contract for the Army's General Support Rocket System. Tests of the Roland ground launched anti-aircraft missile have been completed and we hope to be awarded an initial production contract for that weapon system.

We are also proceeding with the development program for the Air Force's Inertial Upper Stage "space tug," and are doing important developmental work on the MX missile system which has been conceived as the eventual replacement for Minuteman.

Assembly workers are surrounded by a forest of tail sections in the busy Renton plant, where plans are being made to add the new 757 to the three airplanes—707, 727 and 737—already assembled there.



The status of these and other military and space programs is detailed in other sections of this report.

The company's computer services and engineering and construction programs continued to make good progress within expanding markets during the year. Market prospects for a higher performance civilian version of our hydrofoil also improved.

Based on current schedules and programs, 1979 sales should approach the \$8 billion level.

Employment increased approximately 20 percent during the year with most of the new employees assigned to experienced manufacturing teams which are implementing the production rate buildups on the 727, 737 and 747. Additions to the work force will continue on a carefully programmed basis during 1979. By then the company will have experienced three years of substantial employment growth. The rate of growth will decline after 1979.

A major facilities expansion is being undertaken to support existing and new jet transport and government programs. Expenditures for property, plant and equipment in 1978 totaled \$270 million and are currently projected to be in the billion-dollar range for the 1979-1981 time period.

During the year settlements were reached with the Securities and Exchange and Federal Trade commissions, ending their lengthy investigations into the company's foreign sales and marketing activities. Investigations of similar character by the Internal Revenue Service and the Justice Department continue. The

company cannot at this time predict the outcome of either of these investigations.

The company's outlook is excellent. We have a substantial order backlog for 727s, 737s, 747s, 757s and 767s, and a solid government base exists with potential for growth through the expansion of existing programs and winning new competitions.

Our objective is to continue to be a broad-based company with a primary emphasis on high-technology transportation, missile and space systems. Beyond that our emphasis and interest are centered on computer services and engineering and construction activities, many of them directed at elements of the energy and environmental fields.

Substantial opportunities for growth and profitability continue to exist and the human, physical and financial resources necessary to exploit these opportunities fully are either in place or in the process of being acquired. We are well equipped to meet the challenges that such opportunities present.

T. A. Wilson

T. A. Wilson
Chairman of the Board
Chief Executive Officer

M. T. Stamper

M. T. Stamper
President

February 5, 1979

Numerically controlled riveter at Renton plant assembles upper and lower wing panels for 727 and 737. Machine can locate desired site of rivet, drill and countersink hole, insert rivet and shave it to 1/1000th of an inch clearance up to eight times in sixty seconds.



Boeing Commercial Airplane Company

During 1978 the Boeing Commercial Airplane Company received a record number of orders for models of its current line of commercial jet transports. In addition, the company was engaged in production preparation work and final design of the 767 and configuration development of the 757, two new-generation airliners which are designed to fill major elements of the world's airline requirements for the balance of this century.

Orders were announced by United, American, Delta and Pacific Western airlines for 84 767s, and by Eastern Airlines and British Airways for 40 757s. Strong air travel growth worldwide, and increased airline earnings, led to the surge of new orders and prompted major carriers to commit for new, improved technology airplanes. The 767 is scheduled to enter service in the latter part of 1982 and the 757 about six months later.

During the year customers announced orders for 490 airplanes valued at approximately \$11 billion. The highest previous number of airplanes ordered in one year was in 1965 when 418 were announced. Of the 1978 purchases, 248, or approximately half, were from U.S. carriers.

On current production programs, airline orders for the 747 and 737 increased substantially, and the 727 continued its strong sales pace. The 707 remains in production, primarily for military and government service.

Carriers announced purchase of 83 Model 747s, second only to the record 88 ordered in 1966. The superjet acquired seven new customers, bringing the total to 60 worldwide.

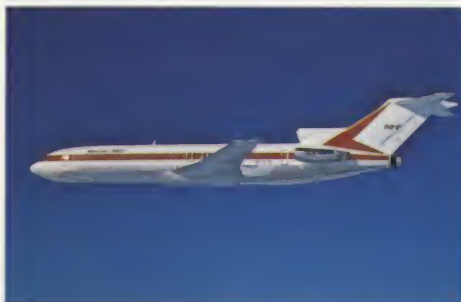
One of the year's 747 highlights came in May when Singapore Airlines announced that it was undertaking an extensive re-equipment program. The carrier ordered ten new 747s and four 727s, with delivery dates on the 747s spread from 1979 through 1982. This long-time Boeing 747 customer is replacing earlier 747s to standardize on the newer high gross

weight, long-range versions of the airplane.

Because of increasing demand for the various versions of the 747, the production rate was increased throughout the year, from two airplanes per month in early 1978 to 5½ by early 1979. By mid-1979 the rate will be at seven a month for the first time since early 1971.

A significant order for three 747SPs was received from Trans World Airlines. The carrier purchased the shortened version of the superjet because of its superior range performance which will enable it to fly nonstop between the United States and the Middle East and between interior cities in the U.S. and Europe. Two other airlines, CAAC, the airline of the People's Republic of China, and Braniff International, joined the 747SP customer ranks, also with orders for three airplanes each. In addition, China Airlines of the Republic of China and Iran Air increased previous SP orders by one each. United States regulatory action opening up more gateway point-to-point international services should result in additional airline interest in the 747SP.

Cargo versions of the 747 continued to sell well. Of the 83 units ordered, 12 are cargo-only freighters and five more are designed to carry main-deck cargo. The 100th 747 with main-deck cargo capability was ordered in early 1979.



Total orders for these three members of the world's most widely flown transport family set a record in 1978. The 83 orders for the 747 were the second highest in history. Demand continued high for the 727, with 131 orders in 1978 putting its all-time total over the 1,600 mark. For the 737, it was the best year ever, with 146 orders announced.

Eleven new customers joined the list of 70 previous purchasers of the 737. The orders for 146 airplanes were the most recorded in any year in the history of the program. The production rate of the 737, reflecting these encouraging trends, is increasing from three a month during 1978 to seven a month by April 1979, and will further increase to 8½ airplanes monthly by the last quarter of 1979.

An especially significant purchase came in mid-year when British Airways announced an order for 19 737s which will be delivered during 1980. Later, British Airtours, the charter subsidiary of British Airways, ordered nine 737s for deliveries beginning in early 1980.

Late in the year, Lufthansa German Airlines announced its intention to order 32 737s for service on its short- and medium-range routes throughout the 1980s. Lufthansa will use the 737s to replace its current fleet of 22 early 737-100s and six 737-200C convertibles. A Lufthansa order for 21 737s launched Boeing's 737 program in 1965.

Both the Lufthansa and British Airways 737s will have improved cockpits featuring an integrated automatic flight control system which will allow landings during low weather minimum flight conditions.

The 727 continued in high demand for intermediate-range airline requirements. Carriers announced orders for 131 727s during the year. Seven new customers were added to the trijet's worldwide base that now totals 94 buyers. Total announced orders for all versions of the 727 reached 1,600 in November.

Significantly, the three U.S. airlines which ordered 767s also ordered new 727s. In addition, air passenger growth within the U.S. prompted three regional airlines—Allegheny, Ozark and North Central—to order 727s.

The 727 is being built at the rate of 12 a month; an increase of three airplanes a month during the year.

Several years of work on advanced-design airplanes for the 1980s and beyond culminated in July when United Airlines ordered 30 767 jetliners and took options for an additional 37.

Six weeks later commitments were made for a second new airplane program, the 757. Eastern Airlines and British Airways announced plans to order a total of 40 of the new twinjets equipped with Rolls-Royce engines. Eastern agreed to purchase 21, with options for 24 more, and British Airways announced its initial buy would be for 19 of the new model.

Probably no air terminal in the world has seen a greater variety of airline markings than this one—Boeing Field, where all Boeing planes are flight tested. By early 1979, Boeing had received orders from 186 airlines—51 domestic companies, 135 foreign.



American Airlines and Delta Airlines announced in November they had chosen the 767 as their standard transport for long-range, medium-traffic service. American ordered 30 with options for 20, while Delta purchased 20 with 22 options.

The 767 design is well along, with several thousand wind tunnel hours amassed by the end of 1978. Based on extensive analysis and wind tunnel testing, this new twinjet promises to be a major step forward in aeronautical technology. It will be about 35 percent more efficient in fuel burned per seat mile than airplanes it will replace. At the same time it will comply with the more stringent government noise rules effective in the 1980s.

The 767 jetliner has a cabin four feet wider than the 727, with two aisles and seven tourist-class seats across arranged in a 2-3-2 layout. It features an advanced-technology wing of Boeing design, with two large high-bypass ratio engines of approximately 45,000 pounds thrust each mounted under the wing. The 767 will make use of the latest developments in flight controls, cockpit instrumentation and electronic equipment to provide airlines with an airplane that is easier to maintain and less costly to operate than older designs.

The United 767s will be operated at ranges up to 2,200 miles, meeting their requirement to fly from Cleveland to San Francisco and from Denver to the East Coast. The 767s ordered by American and Delta will have a somewhat higher gross weight, making possible nonstop U.S. transcontinental flights.

Final assembly of the 767 will take place at Everett, Washington, adjacent to 747 assembly operations. A 2.5 million-square-foot expansion program, now under way, will provide the additional facilities required.

Aerospace companies in two countries have become risk-sharing participants in the 767 development and production program. Aeritalia of Italy will build portions of the 767 wing and tail. The Civil Transport Development Corporation, a consortium of three major Japanese manufacturers, contracted to supply fuselage panels and doors, aerodynamic fairing assemblies, main landing-gear doors, and wing ribs. The participants will also perform detailed engineering and design work on the 767 sections they will build.

Late in the year, several major contracts were awarded to U.S. suppliers and subcontractors for major components of both the 767 and 757. Both programs will benefit from participation by established American companies, many of whom have been associated for many years with current Boeing programs.



Members of a new Boeing transport family—the 757, left, and the 767. Both are twinjets, incorporating major advances in technology that promise more efficiency and lower operating costs. The standard-body 757 will seat approximately 175. The wide-body 767 will have two aisles and carry about 200.

The first Boeing 767 will roll from the factory in late summer 1981 to begin the flight test and certification phase of the program. Initial deliveries will be made to United about a year later. Delta and American will receive their first 767s in October 1982.

A longer-range version of the basic 767 airplane, fitted with a third engine in the tail, could become committed to production if market developments warrant.

The 757 is a new-technology, twin-engine, short- to medium-range airliner. Its wing will be smaller than that of the 767 but is patterned from the latest Boeing aerodynamic design advancements. It will be powered by derivatives of current high-bypass ratio engines in service on wide-body airplanes. Many advanced structural materials will be used in common with the 767. The 757 fuselage will

accommodate six-abreast seating of approximately 175 passengers. There will be a high degree of commonality with 767 cockpit instruments and advanced digital aviation electronics. The combination of passenger capacity, high-technology wing and advanced turbofan engines will give the 757 a fuel economy per passenger that formerly was possible only with an airplane the size of the 747.

The 757 has been designed to provide airlines with a frequency advantage offered by smaller aircraft while providing the fuel and economic efficiencies normally associated with larger airplanes. With a development program paced about six months later than that of the 767, 757 deliveries to Eastern and British Airways are scheduled to begin in early 1983.

Production of the 757 will take place at the company's Renton plant, alongside the 707, 727 and 737 manufacturing activities.

1978 was an outstanding year. Orders received the past two years provide assurance that production rates will remain high into 1981. While continuing demand is foreseen for current programs, new orders are not expected to reach 1978 levels. With the two advanced programs begun in 1978, our ability to offer the broadest range of airplanes to meet airline requirements has been greatly enhanced. The Boeing Commercial Airplane Company believes it is in an excellent position, both with its present and new-generation airplanes, to capitalize on the sizeable growth and replacement markets of the 1980s.



Boeing Aerospace Company

Despite a substantial loss of potential business resulting from the 1977 cancellation of B-1 bomber production and related missile activities, growth in existing programs and the attainment of new contracts enabled Boeing Aerospace Company to achieve 1978 sales matching the previous year's level. Its business base remains sound and several current developmental activities could lead to long-term production programs.

To realize this potential, the company must do well in the important military competitions in which it is now engaged. These include Air Force competitions for the Air Launched Cruise Missile and the Advanced Medium STOL (short takeoff-and-landing) Transport, together with the Army's General Support Rocket System.

Backbone of the current production base is the E-3A AWACS. Ten of these sophisticated airborne warning and control systems were delivered to the Air Force's Tactical Air Command in 1978. Early in the year the 552nd AWACS Wing at Tinker Air Force Base was declared operational. By year's end the radome-topped, electronics-filled 707s, now designated Sentry, were on station in both North America and Iceland.

The Air Force has announced a requirement for 34 Sentry systems. Twenty-two are contracted for, of which 15 had been delivered by the end of 1978. In December the Council of NATO Defense Ministers voted to proceed with the acquisition of a fleet of 18 AWACS craft to serve in the airborne early warning role. A subcontract team of German and Canadian aerospace electronics firms will participate in the program.

Another commercial airplane derivative, the first E-4B Advanced Airborne Command Post, will be delivered early in 1979. Three E-4As, an earlier version, already are in Air Force inventory. The E-4 is a modified 747 equipped with extensive

The U.S. Strategic Air Command has received three Airborne Command Post Systems (top photo). An advanced version is to be delivered in 1979.



New Air Launched Cruise Missile B model (middle photo) is mounted with pair of short-range attack missiles on a B-52 launcher mockup to prove launcher can carry both types of missiles.

Mockup of the Inertial Upper Stage (bottom photo) which will carry Space Shuttle payloads to higher orbits and serve as an upper stage of the Titan III rocket. Initial contract calls for building of nine.

electronics and serves as a flying command post for the Strategic Air Command's continuous airborne alert missions. It would serve as the critical link between national command authorities and the nation's strategic retaliatory forces in the event of a nuclear attack on the United States.

At stake in one of 1979's most crucial competitions is a contract to produce the Air Launched Cruise Missile, now assigned a new role as a major penetrating weapon of the Strategic Air Command. To fulfill this more demanding mission, Boeing has developed the ALCM-B, a larger, longer-range missile based on technology already proved by the earlier ALCM-A, which met all mission requirements in a series of test flights.

A contract for full-scale development of ALCM-B has been received and pilot production has begun. The first of a series of flight test missiles will be completed early in 1979. These will be used in a 10-flight competition against a version of the Navy's Tomahawk cruise missile. A winner will be announced in early 1980. Department of Defense plans call for production of about 3,400 missiles.

Competition for the Advanced Medium STOL Transport (AMST), suspended last year, has been reopened by the Air Force. Funds to complete the competition and select a winning design have been appropriated by Congress. Boeing's candidate is the C-14. Two YC-14 prototypes had completed a highly successful series of flight tests and were delivered to the government before the competition was suspended.

Selection of a winner in the AMST competition is expected in 1979, and a government decision to proceed with full-scale development and production is anticipated. The aircraft

was designed to modernize the Air Force's tactical airlift fleet, but has emerged also as a candidate for cruise-missile carrier and other missions.

Boeing delivered its final Minuteman intercontinental ballistic missile to the Air Force in November, closing out 16 years of production. Under present Air Force plans, however, work will extend into 1980 as improvement of silos and ground-support equipment continues at Minuteman bases.

Boeing is seeking a major role in the proposed next generation of ICBMs, the MX, and is involved in ground-support and basing aspects of this program under a 16-month, \$42 million contract received in October. The work includes studies of command, control and communications, mechanical equipment, security, and power systems for deploying the missiles in vertical underground shelters. In this concept, each missile would be stored in a transportable launcher containing all necessary support equipment. To mask their location from an enemy, the launchers could be placed in any of a number of

shelters. Boeing will design and build equipment for this concept and will test it at a remote site in Nevada.

Following successful testing of the Roland air-defense missile system, the Army has requested Hughes Aircraft and Boeing to prepare for low-rate production. Authorization for the production program is expected by this summer. The Roland system was developed in Europe, and Hughes and Boeing are licensed jointly to build it in the U.S., with Boeing as principal subcontractor to Hughes. The full-scale production program could run as long as ten years.

Another Army program with the potential for an equally long production run is the General Support Rocket System, a free-flight, ground-to-ground weapon designed to saturate a battlefield with

Crew members prepare to board an Airborne Warning and Control System plane at Tinker AFB, where the 552nd AWACS Wing became operational in 1978.



concentrated firepower. Boeing and Vought are developing competing systems which the Army will evaluate in firing tests to begin late this year. Selection of a production contractor is expected in 1980.

In the field of space, Boeing began full-scale development and initial production of the Inertial Upper Stage (IUS). This unmanned space tug will serve both as a booster for Space Shuttle payloads and as an upper stage for the Air Force's Titan III launch vehicle. Under its present contract with the Air Force, Boeing will deliver nine IUS vehicles, together with space- and ground-support equipment. Four will be used for Department of Defense missions and five for National Aeronautics and Space Administration payloads. Boeing also will integrate the IUS

systems with Air Force and NASA satellites, joining boosters with the satellites and supporting launch and mission control operations.

In another program, the first of two spacecraft base modules designed and produced for NASA's Applications Explorer Missions was launched last April. Its success earned Boeing the space agency's Public Service Group Achievement Award. This spacecraft is intended to map Earth temperatures, producing data which will help to locate mineral resources, measure soil moisture effects and predict snowfield runoffs. The second craft will measure aerosols and ozone in the upper atmosphere.

As a major developer and supplier of military and space systems, Boeing Aerospace Company competes in an environment of constantly advancing technologies. Both to support current programs and to win new ones, it is maintaining a strong base in a broad variety of engineering and scientific disciplines.

The versatile YC-14 is Boeing's entry in the Air Force competition which will be reopened in 1979 to select an Advanced Medium STOL (short takeoff and landing) plane.



Boeing Wichita Company

Wichita's business volume expanded significantly during 1978. More than one billion dollars of new business was acquired for military contracts, manufacturing support for Boeing Commercial Airplane Company, and aircraft modification for commercial customers.

Full-scale development of a new B-52 offensive avionics system got under way under a \$129 million Air Force contract that will extend through 1981. The work involves developing new electronic subsystems and modifying existing subsystems to improve the global bomber's navigation and weapons delivery capability. Included is funding to develop a system to launch and control cruise missiles. The Air Force anticipates initial retrofit of all B-52G and H models with the new avionics system starting about mid-1981.

Under a separate \$87 million Air Force award, Wichita is equipping three B-52G aircraft for a 1979 fly-off competition between a Boeing-built air launched cruise missile and one built by General Dynamics. Six cruise missile pylons will be designed and built to ensure the compatibility of the B-52 with the cruise missile systems.

Good progress was made on the construction of a B-52/KC-135 weapon systems trainer designed for an Air Force competition to be held in late 1979. The first production unit of

the winning trainer is scheduled to be operational in the early 1980s.

Several Air Force projects involving improvements on KC-135 aircraft moved forward in 1978. In one, wing reskinning of 37 aircraft was completed on an accelerating schedule. In another, flight tests were scheduled in 1979 for a KC-135 tanker equipped with winglets to

determine the fuel economy advantages of the devices. An assignment to provide source selection data on proposed re-engining of KC-135s also was completed.

B-1 avionics work continued in support of Air Force tests at Edwards AFB, under a contract that will carry the support activity into late 1979 with options to extend into 1982.

Progress was made on the development and production of ground and ship-based test equipment to support Navy anti-submarine and attack aircraft.

Support to other Boeing organizations is a major portion of Wichita business. Production of major structural components for the Boeing jet transport family continued throughout 1978 as planning got under way for fabrication of forward body section assemblies for the new 767 in Wichita. Production rates of both 737 and 747 support programs were increased during 1978 to match the increased delivery rates for these models in Renton and Everett.

Production of aircraft nacelles was increased in 1978. Engine cowlings and thrust reversers for the 767, struts for 747s equipped with General Electric and Pratt & Whitney engines and other nacelle parts for 747s will be produced in a new 135,000 square foot building now being constructed.

Modifications on 17 727s, 16 707s and 2 747s were completed for 11 customers at the aircraft modification center during 1978. Assignments included new interiors, passenger-to-cargo conversions, provisions for increased passenger capacity and structural service bulletin work.



(Top Photo) A major part of Boeing Wichita's operations is production of nacelles, cowlings and other components of commercial airplanes assembled in Seattle area plants.

Long a mainstay in the nation's air defense, the B-52 is the focus of several Boeing Wichita programs, including one aimed at development of a new offensive avionics system.

Boeing Vertol Company

During 1978, Vertol acquired major new orders for its helicopter product lines.

The United Kingdom's Royal Air Force placed a \$242 million order for 33 Chinook helicopters. Deliveries to the RAF, a first-time Boeing Vertol customer, will begin in 1981. Ten foreign nations now have selected the Chinook for their military forces.

A contract for eight additional Chinook helicopters for the U.S. Army is expected to be signed shortly. Funding for these was approved in the FY 79 defense budget.

In November British Airways announced it would purchase three 44-passenger, 600-mile-range commercial derivatives of the Chinook for transporting crews and cargo in North Sea oil field service. The \$33 million order includes an option for three additional helicopters. The commercial Chinook will have twice the range and three times the lifting capacity of existing helicopters used in offshore oil operations.

Deliveries will begin late in 1980 with operations scheduled for the summer of 1981. Joint certification by the U.S. Federal Aviation Administration and the British Civil Aviation Authority is expected in 1981.

Much of Vertol's work continues to involve helicopter fleet modernization programs for U.S. military customers.

Under one such ongoing program three CH-47s which originally were delivered to the Army in Model A, B and C configurations are being rebuilt and modernized into a common CH-47D version. The first of these prototypes, designated YCH-47Ds, is nearing completion and will be ready

for flight testing early in 1979. Production contracts to modernize 361 of the earlier CH-47s to the D configuration are expected following Army testing. The modernized Chinooks will have advanced transmission, electrical, mechanical and avionics systems, structural improvements, fiberglass blades and more powerful engines.



The Royal Air Force will receive the first of 33 new CH-47 Chinook helicopters from Boeing Vertol in 1981. The order brings to ten the number of foreign nations ordering these helicopters for military use.

A Navy CH-46 helicopter (bottom photo) after modification to the E model. Changes include larger engines, improved rescue and navigation systems and fiberglass blades.

Flight test qualification of Chinook fiberglass blades has been successfully completed. Production of fiberglass blades to replace the metal blades on 210 C model Chinooks in the U.S. Army fleet is expected to begin in 1979.

Other helicopter business received during 1978 included a contract from the U.S. Navy which increased from 117 to 194 the number of kits ordered to update CH-46 helicopters to an E configuration. The first of the E aircraft, which are equipped with larger engines, improved rescue and navigation systems and fiberglass blades, became operational during the year. The Navy plans to modify a total of 273 CH-46 helicopters to the E configuration with the final contract increment to be placed in 1980.

During 1978 Vertol completed production of rail transit vehicles ordered by the Chicago Transit Authority. Initial delivery of light rail vehicles to San Francisco began and deliveries to Boston continued.

Work on current rail car contracts is expected to be completed during 1979.

Boeing Engineering and Construction Company

Design, construction, and development of systems and hardware to support energy production and assist industry and government in protecting the environment were principal elements of Boeing Engineering and Construction activity in 1978. BEC also is construction manager for Boeing and is providing design and construction services on Boeing major plant expansion programs.

In the energy field, three major computer based data acquisition and control systems were delivered. Their functions range from control of electric power transmission systems to monitoring and controlling airport utilities and facilities operations. A new energy management system is under development to control power generation and high voltage transmission for Consolidated Edison Company of New York.

Activities in support of the offshore oil industry included a

contract to assist in the planning phase of a major offshore gas development project in Western Australia and participation in the successful placement of a deep-water oil platform in the Gulf of Mexico.

BEC increased its activity in the Department of Energy's nuclear fuel enrichment program, focusing on fabrication of gas centrifuge machines and related equipment. Design and testing of advanced energy systems continued on the 300-foot-diameter wind turbine and on components for solar energy power plants.

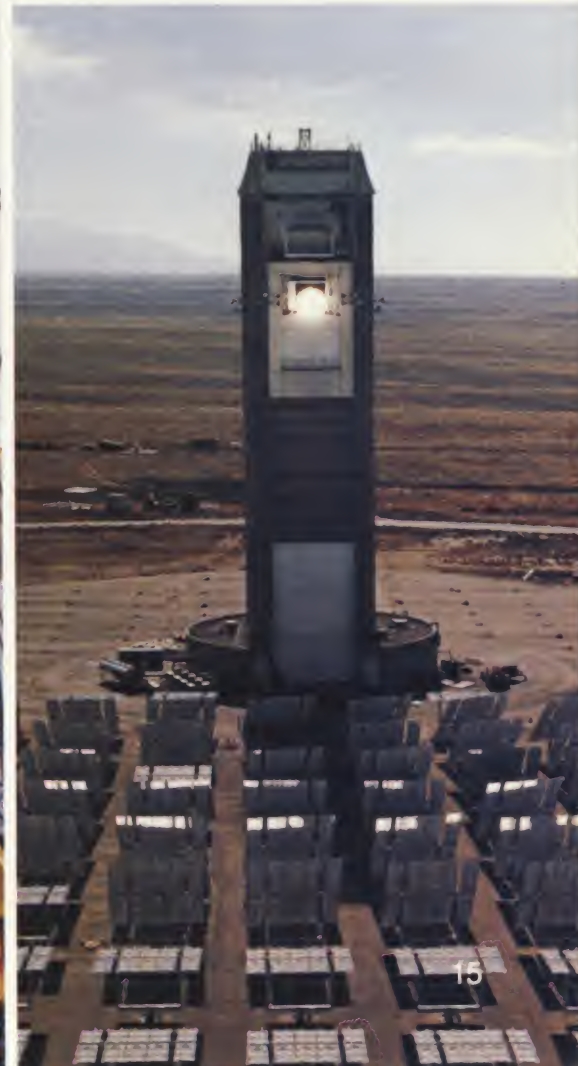
Environmental activities included completion of a large evaporator system for purifying wastewater at an electric power plant in Colorado.

Orders were received for similar systems to be used in two new industrial applications: concentration of pulp liquor in a paper mill and treatment of process fluid in a nuclear fuel production plant.

A contract was awarded for building construction to house turbines at two nuclear power plants near Satsop, Washington, and two construction projects were completed at Hanford, Washington, nuclear plants.

BEC is managing the construction project (first photo, right) to enlarge the already huge 747 final assembly building at the Everett plant. Additions will accommodate assembly of the new 767 airplane.

At a Department of Energy solar power test site in New Mexico, sun-tracking mirrors focus the sun's rays on a 13-foot-diameter receiver that was designed and built by BEC.



Boeing Computer Services Company

During 1978, BCS provided the expanding computing requirements needed to meet Boeing's increased jetliner production. At the same time, BCS continued to enlarge its commercial computer services and currently supports more than 1,800 customers from 25 sales offices located in the U.S., Canada and the United Kingdom.

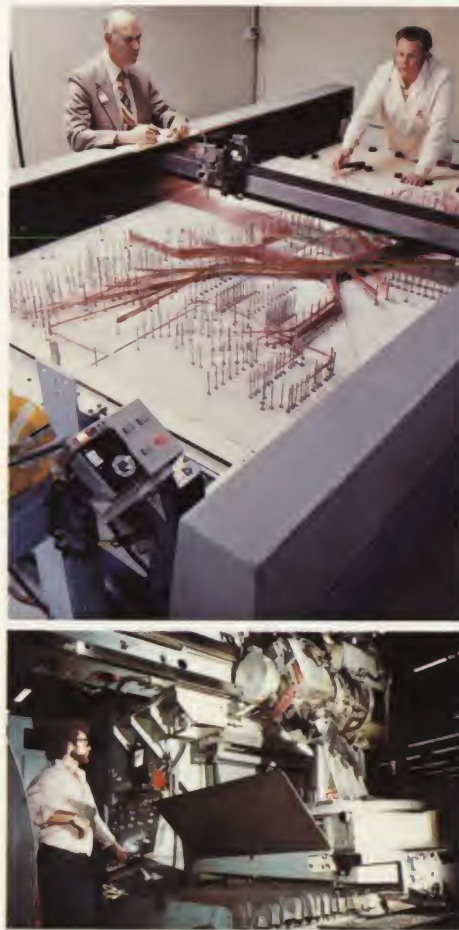
Highlighting 1978 activities was a major expansion in computing and communications capabilities. Ten large scale business and/or scientific computers were installed, nearly doubling the computing power available. A data center and office complex was constructed in suburban Washington, D.C., to accommodate increased sales and employment in that region. The microwave communications network serving Boeing Puget Sound locations was more than doubled in size and private satellite earth stations now link Boeing operations in Seattle, Wichita and Philadelphia. Communication systems have been expanded and improved and now provide access service to customers in more than 80 cities in the U.S. (including Alaska and Hawaii), Canada and the United Kingdom. The services also were extended to Italy and Japan in support of the activities of Boeing 767 program participants in those countries.

The year brought unusually heavy BCS activity in new computer systems development for Boeing. Sixty existing computer systems were examined in detail and necessary modifications were made to accommodate the new 757 and 767 jetliner programs. Major new developments completed or under way include a system to provide

design, manufacturing and quality support and complete configuration controls for airplane wiring (a typical 747 contains 120 miles of wire); a real-time system for production planning and control; and advanced systems for computer-aided design and manufacturing.

BCS also significantly expanded its commercial timeshare services. Several new financial applications were added to the Executive Information Services (EIS) product line, making it a uniquely comprehensive and very cost-effective service for handling business problems of planning, analysis, reporting, forecasting and control. More than 250 customers are using EIS, including many large corporations and government agencies. BCS scientific and engineering services are already used by more than 500 customers in over 50 cities. An expanded engineering product line was introduced offering a library of timesharing applications to the structural, civil and energy fields which permit greater personal engineering creativity and productivity.

BCS plans for 1979 call for expanding its commercial customer base and for continued growth in support of increased Boeing jetliner activity.



Implemented jointly by BCS and the Boeing Commercial Airplane Company, this computer-controlled device measures, sequences and routes wire for complex 747 wire assemblies 16 times faster than hand methods.

BCS supports computer programs that guide numerically-controlled metalworking machines in Fabrication Division. Parts for Boeing airplanes and aerospace programs are manufactured here.

Boeing Marine Systems

Work on production of five Patrol Hydrofoil Missiles for the U.S. Navy under a contract awarded last year is well under way with delivery of the first ship planned for February 1981. The prototype for the Pegasus-class military hydrofoils is operational with the Pacific fleet, based in San Diego.

Orders for four commercial hydrofoils at a value of approximately \$45 million were received in 1978. The Jetfoils ordered are a new model 929-115 developed and tested during the year. The range/payload of these advanced hydrofoils has been improved and provides a 20 percent increase in revenue payload over earlier models. Redesigned systems will result in further improvement to

the hydrofoils' already high departure reliability, a reduction in maintenance expenditures and an overall improvement in profitability for hydrofoil operators.

One of the new Jetfoils will be added to an already successful service in the Sea of Japan, one will begin a new service across the English Channel and one will inaugurate a route across the Irish Sea. The fourth Jetfoil is an Ocean Patrol Hydrofoil, a configuration derived from the Jetfoil. This new configuration will see service in a fisheries protection role in the North Sea with the British Royal Navy.

Jetfoils in commercial service in Hong Kong, Japan, Venezuela and on the English Channel have now carried more than 4.5 million passengers over 200 million passenger miles.

The Pegasus (left, below), Patrol Hydrofoil Missiles, is in service with the Navy. The first of five more being built is scheduled for delivery in 1981.

Jetfoil (below, right) takes a test run on Puget Sound. Jetfoils in commercial service have carried more than 4.5 million passengers.



Financial Review

Sales, Earnings and Dividends

Consolidated sales for 1978 increased \$1,444 million from the prior year to a record \$5,463 million. Foreign sales were 42% of total sales in 1978 compared with 38% in 1977. Sales to the U.S. Government were 29% in 1978 and 37% in 1977.

Commercial transportation equipment sales were substantially above 1977 levels by reason of increased aircraft and spares deliveries. Including military derivatives, 11 707s, 118 727s, 40 737s and 32 747s were delivered in 1978 for a total of 201. This compares with 1977 deliveries of 7 707s, 67 727s, 25 737s, and 20 747s for a total of 119. Current schedules anticipate the 1979 delivery of 6 707s, 135 727s, 79 737s and 72 747s for a total of 292.

Military transportation equipment sales were below 1977 levels, primarily reflecting lower E-3A (AWACS), B-1 avionics and helicopter

sales. Missile and space sales increased significantly, with higher sales levels under the Inertial Upper Stage space booster, Air Launched Cruise Missile, Minuteman and General Support Rocket System programs.

The improved earnings for 1978 were achieved primarily through continued favorable performance on commercial jet transport and major military programs, a high level of jet transport orders which have resulted in increased airliner production rates, and increased interest income.

The company continued its practice of charging directly to earnings as incurred, research, developmental, general and administrative expenses except to the extent such expenses are expected to be recoverable under contracts. With increased activity on the 767 and 757 programs, research, developmental and other expenditures relating to commercial jet transport and other transportation equipment programs were at higher levels than the prior year. Research and development

expenses, including basic engineering and planning costs on commercial programs, of \$276.1 million and general and administrative expenses of \$166.6 million charged directly to earnings in 1978 were respectively \$54.5 million and \$25.1 million higher than in 1977.

Earnings before federal income taxes were \$584.0 million, compared with \$316.2 million in 1977. The 1978 provision for federal taxes on income was \$261.1 million compared with \$135.9 million in 1977. While pretax income increased 85% compared with 1977, the provision for federal taxes on income increased 92%. The higher effective tax rate results from

SALES

In Billions of Dollars

- Commercial (Including Local and Foreign Government)
- U.S. Government



SALES

In Billions of Dollars

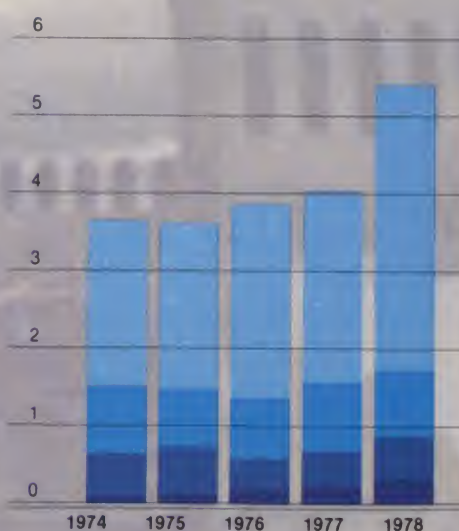
- Foreign
- Domestic



SALES BY CLASS OF PRODUCT

In Billions of Dollars

- Commercial
 - Military
 - Missiles and Space
 - Other
- Transportation Equipment and Related Services



the significant increase in pretax earnings with a proportionately smaller increase in total tax benefits from investment tax credits and domestic international sales corporations.

Net earnings for 1978 were \$322.9 million, an increase of \$142.6 million or 79% over the \$180.3 million reported in 1977. The earnings amounted to \$7.57 per share or 5.91% of sales, compared with \$4.24 or 4.48% of sales in 1977.

Revenues and earnings contribution by the company's major industry segments for the five-year period 1974 through 1978 are summarized below:

Revenues and Earnings Contribution by Industry Segment

(in millions)

	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>
Revenues:					
Transportation equipment and related services:					
Commercial	\$3,827.3	\$2,459.2			
Military*	811.0	963.6			
Total transportation equipment	4,638.3	3,422.8	\$3,321.3	\$3,004.9	\$3,020.2
Missiles/space and miscellaneous			597.2	714.0	710.5
Missiles and space*	591.7	446.1			
Other industries	294.0	208.3			
Sales			<u>\$3,918.5</u>	<u>\$3,718.9</u>	<u>\$3,730.7</u>
Operating revenues	5,524.0	4,077.2			
Corporate income	123.8	47.4			
Total revenues	<u>\$5,647.8</u>	<u>\$4,124.6</u>			
Earnings contribution:					
Transportation equipment and related services					
Commercial	\$ 417.2	\$ 196.0			
Military*	54.7	72.9			
Total transportation equipment	471.9	268.9	\$ 249.9	\$ 201.1	\$ 167.0
Missiles/space and miscellaneous			64.7	59.7	68.2
Missiles and space*	34.2	39.6			
Other industries	11.3	5.1			
Operating profit	517.4	313.6	314.6	260.8	235.2
Other expenses, net			(152.0)	(148.1)	(132.8)
Corporate income	123.8	47.4			
Corporate expense	(57.2)	(44.8)			
Earnings before taxes	<u>\$ 584.0</u>	<u>\$ 316.2</u>	<u>\$ 162.6</u>	<u>\$ 112.7</u>	<u>\$ 102.4</u>

*Principally U.S. Government

In 1978 and 1977 corporate income consists principally of interest income from corporate investments and corporate expense consists of interest on debt and other general corporate expenses. In 1976 and prior years, unallocated "other expenses—net" include general and administrative expenses and company-sponsored independent research and development not recoverable under contracts, interest on debt, interest income and miscellaneous income.

Quarterly dividends paid per share for 1978 and 1977 (adjusted for the 1977 two-for-one stock split) were as follows:

Quarter	1978	1977
1st	\$.55	\$.17½
2nd	.30	.17½
3rd	.30	.25
4th	.80	.25
	<u>\$1.95</u>	<u>\$.85</u>

Reflecting adjustment for the stock split, regular quarterly dividends were increased from 12½ cents to 17½ cents per share in the first quarter of 1977 and were further increased to 25 cents in the third quarter of 1977 and to 30 cents in the first quarter of 1978. In addition, special dividends of 25 cents and 50 cents were paid in the first and fourth quarters, respectively, of 1978. In the first quarter of 1979 the company announced a three-for-two stock split and an increase in the quarterly dividend to 37½ cents per share, equivalent to 25 cents per share after the split.

Ranges of 1978 and 1977 market prices (adjusted for the two-for-one stock split) for the company's common stock, as traded on the New York Stock Exchange, were as follows:

	1978		1977	
Quarter	High	Low	High	Low
1st	35½	25	22¾	18¾
2nd	54	33¼	29¾	20¾
3rd	76	51½	29¾	26¾
4th	75¼	56¼	29½	23¾

Financial Position

Stockholders' equity at December 31, 1978, amounted to \$1,474 million, compared with \$1,231 million at year-end 1977. Working capital increased \$180 million to \$921 million.

The noncurrent portion of long-term aircraft financing, which includes notes receivable, investment in sales-type leases and the depreciated book value of aircraft on operating leases, decreased \$51 million to a total of \$183 million. The decrease reflects a \$41 million reduction in notes receivable, a \$7 million decrease in the net book value of aircraft on operating leases and a \$3 million decrease in the company's investment in sales-type leases.

Facilities additions, net of retirements, exceeded plant depreciation by \$183 million, increasing the company's net investment in plant and equipment to \$584 million at the end of 1978.

Long-term debt was \$105 million at the end of 1978, a reduction of \$13 million during the year, reflecting required annual payments on long-term notes payable.

The company's commercial bank credit arrangements are covered by an agreement that provides for open lines of credit aggregating \$100 million which are available to the company through March 31, 1979. There were no borrowings under this agreement at year end.

Backlog

Total firm backlog of unfilled orders at the end of 1978 was \$11,154 million, compared with \$5,917 million at the end of 1977. Of the total 1978 backlog, \$9,579 million or 86% was commercial (including local and foreign government) compared with \$4,474 million or 76% at the end of 1977. United States Government backlog was \$1,575 million or 14% at December 31, 1978, compared with \$1,443 million or 24% at the end of 1977.

Announced orders for which definitive contracts have not been executed and purchase options are not included in commercial backlog. Government order backlog is limited to amounts obligated to contracts by the procuring agencies. If recognition were given to unfunded amounts under contract with the United States Government at December 31, unfilled orders would be increased by about \$600 million at the end of 1978 and \$250 million at the end of 1977.

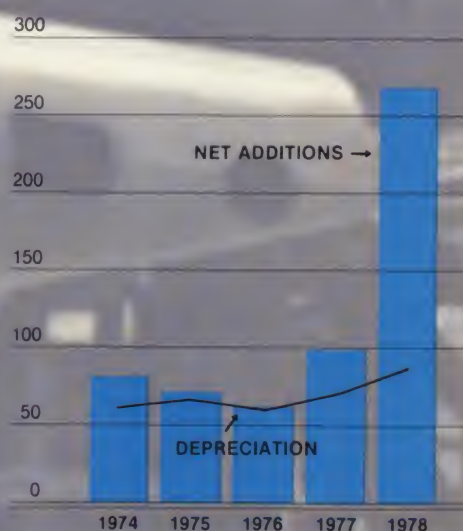
NET EARNINGS AND CASH DIVIDENDS

In Millions of Dollars



PROPERTY, PLANT AND EQUIPMENT

In Millions of Dollars



Responsibility for Financial Statements

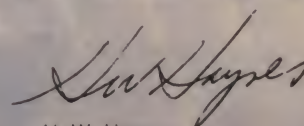
To The Stockholders of The Boeing Company

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles. The representations in the financial statements, and the fairness and integrity of such statements are the responsibility of management. To meet management's responsibility, the Company maintains a system of internal controls and procedures and a program of internal audits designed to provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period.

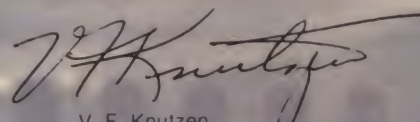
The financial statements have been audited by Touche Ross & Co., Certified Public Accountants, whose appointment was ratified by stockholder vote at the annual stockholders' meeting. The accountants' report expresses an informed judgment as to whether management's financial statements, considered in their entirety, present fairly in conformity with generally accepted accounting principles the Company's financial condition and results of operations. Their examination was conducted in accordance with generally accepted auditing standards and included a review of internal controls, tests and other procedures necessary to provide reasonable assurance that

the financial statements are not materially misleading and do not contain material errors.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with the independent public accountants, management and internal auditors. The independent public accountants and the internal auditors have free access to this committee, without management present, to discuss the results of their audit work and their opinions on the adequacy of internal controls and the quality of financial reporting.



H. W. Haynes
Executive Vice President
Chief Financial Officer



V. F. Knutzen
Vice President—Controller
Chief Accounting Officer

Consolidated Statements of Net Earnings and Retained Earnings

(in millions except per share data)

	Year ended December 31,	
	1978	1977
Sales	\$5,463.0	\$4,018.8
Other income	184.8	105.8
	<u>5,647.8</u>	<u>4,124.6</u>
Costs and expenses	5,056.1	3,797.0
Interest and debt expense	7.7	11.4
	<u>5,063.8</u>	<u>3,808.4</u>
Earnings before taxes	584.0	316.2
Federal taxes on income	261.1	135.9
Net earnings	322.9	180.3
Retained earnings, January 1	684.0	648.3
Amount transferred to common stock in connection with 2-for-1 stock split (\$5 per share par value for new shares)		(108.4)
Cash dividends paid: 1978—\$1.95 per share; 1977—\$.85 per share	(83.2)	(36.2)
Retained earnings, December 31	<u>\$ 923.7</u>	<u>\$ 684.0</u>
Net earnings per share	<u>\$7.57</u>	<u>\$4.24</u>

See notes to consolidated financial statements.

Consolidated Statements of Financial Position

(in millions)

December 31,

	1978	1977
ASSETS		
Current assets:		
Cash and certificates of deposit	\$1,496.4	\$ 800.9
Short-term investments, at cost, which approximates market	352.0	208.8
Accounts receivable	357.0	315.7
Current portion of long-term customer financing	73.0	58.3
Inventories	2,131.6	1,341.5
Less applicable advances and progress payments	(1,633.3)	(954.2)
Total current assets	2,776.7	1,771.0
Long-term customer financing	182.7	233.8
Property, plant and equipment, at cost	1,541.6	1,300.9
Less accumulated depreciation	(958.1)	(900.2)
Investments and other assets	30.3	34.9
	\$3,573.2	\$2,440.4
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable to banks	\$ 2.5	\$ 3.4
Accounts payable and accrued liabilities	1,107.6	546.0
Advances and progress billings in excess of related costs	461.7	310.6
Federal taxes on income, principally deferred	270.5	156.4
Current portion of long-term debt	13.5	13.5
Total current liabilities	1,855.8	1,029.9
Deferred taxes on income	105.9	41.1
Deferred investment credit	46.5	34.0
Long-term debt	91.4	104.1
Stockholders' equity	1,473.6	1,231.3
	\$3,573.2	\$2,440.4

See notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

(in millions)

Year ended December 31,

	1978	1977
Sources of funds:		
From operations—		
Net earnings	\$322.9	\$180.3
Depreciation:		
Plant and equipment	85.8	71.4
Leased aircraft	9.9	10.4
Amortization of investment credit	(13.8)	(11.4)
Deferred Federal taxes on income	64.8	4.1
Total from operations	469.6	254.8
Decrease in long-term customer financing	41.2	17.1
Increase in deferred investment credit	26.3	11.0
Decrease in investments and other assets	4.6	
Other	2.6	2.4
	<u>544.3</u>	<u>285.3</u>
Uses of funds:		
Additions to plant and equipment, net	268.6	99.1
Cash dividends	83.2	36.2
Increase in investments and other assets		30.6
Decrease in long-term debt	12.7	13.6
	<u>364.5</u>	<u>179.5</u>
Net increase in working capital	<u>\$179.8</u>	<u>\$105.8</u>
Changes in components of working capital:		
Cash and certificates of deposit	\$695.5	\$493.3
Short-term investments	143.2	(33.6)
Accounts receivable and current portion of long-term customer financing	56.0	89.5
Inventories, net	111.0	(156.9)
Accounts payable and accrued liabilities	(561.6)	34.4
Advances and progress billings in excess of related costs	(151.1)	(211.9)
Federal taxes on income	(114.1)	(113.3)
Other	.9	4.3
Net increase in working capital	<u>\$179.8</u>	<u>\$105.8</u>

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended December 31, 1978 and 1977

Dollars in millions except per share data

Note 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of all significant subsidiaries. Intercompany profits, transactions and balances have been eliminated in consolidation.

INVENTORIES. Inventoried costs on long-term commercial programs and U.S. Government contracts include direct engineering, production and tooling costs and applicable overhead. In addition, for U.S. Government fixed-price-incentive contracts, inventoried costs include research, development, general and administrative expenses estimated to be recoverable. Inventoried costs are reduced by the estimated average cost of deliveries.

For mature commercial programs, the average cost of deliveries is based on the estimated total cost of units committed to production. For commercial programs in the early production stages, the average cost of deliveries is based on the estimated total cost of units representing a conservative market projection. For U.S. Government contracts, the average cost of deliveries is based on the estimated total cost of units under contract.

To the extent the total costs as determined above are expected to exceed the total estimated sales price, charges are made to current earnings to reduce inventoried costs to estimated realizable value.

In accordance with industry practice, inventoried costs include amounts relating to programs and contracts with long production cycles, a portion of which is not expected to be realized within one year.

Commercial spare parts and general stock materials are stated at average cost not in excess of realizable value.

REVENUE RECOGNITION. Sales under commercial programs and U.S. Government fixed-price and fixed-price-incentive contracts are recorded as deliveries are made. Sales under cost-reimbursement-type contracts are recorded as costs are incurred and fees are earned. Certain U.S. Government contracts contain profit incentives based upon performance as compared to predetermined targets. Incentives based on cost are recorded currently. Other incentives are included in revenues when awards or penalties are established, or when amounts can reasonably be determined. The sales portion of revenue on sales-type leases is recorded as deliveries are made. The interest portion is deducted from the investment and is recognized over the life of the lease. Other leases are accounted for on the operating method.

DEPRECIATION AND AMORTIZATION. Property, plant and equipment and aircraft on operating leases are recorded at cost and depreciated or amortized over useful lives based principally on accelerated methods.

RETIREMENT PLANS. The Company has several retirement plans covering substantially all employees. The Com-

pany's policy is to accrue and fund current pension costs. Unfunded past service costs are amortized principally over 25 years.

RESEARCH AND DEVELOPMENT, GENERAL AND ADMINISTRATIVE EXPENSES. Research and development (including basic engineering and planning costs on commercial programs) and general and administrative expenses are charged directly to earnings as incurred except to the extent estimated to be recoverable under contracts.

FEDERAL TAXES ON INCOME. The provision for Federal taxes on income is based on all elements of income and expense included in the statements of net earnings, regardless of the period when such items are reported for tax purposes, except that no provision is made for that portion of the earnings of the Company's Domestic International Sales Corporations for which management believes tax payments will be indefinitely deferred. The effects of timing differences between the reporting of revenues and expenses for financial statements and Federal income tax purposes are reflected as changes in deferred taxes on income. Investment tax credits are deferred and recorded as reductions in the provision for income taxes over the lives of the applicable assets.

Note 2 • ACCOUNTS RECEIVABLE:

Accounts receivable at December 31 consisted of—

	1978	1977
Amounts receivable under U.S. Government contracts	\$155.5	\$162.3
Accounts receivable from commercial customers	201.5	153.4
	<u>\$357.0</u>	<u>\$315.7</u>

No significant amounts included in accounts receivable represent retainages under contracts, amounts subject to future negotiations, accrued costs and profits not billable, or amounts which will not be collected within one year.

Note 3 • INVENTORIES:

Inventories at December 31, 1978 consisted of inventoried costs relating to long-term commercial programs and U.S. Government contracts, less estimated average cost of deliveries, of \$1,907.2 (\$1,190.8 at December 31, 1977) and commercial spare parts, general stock materials and other inventories of \$224.4 (\$150.7 at December 31, 1977). No significant amounts of general and administrative expense were included in inventories.

Inventoried costs relating to long-term commercial programs and U.S. Government contracts included \$116.0 in 1978 and \$130.0 in 1977 of unamortized tooling costs and \$60.0 in 1978 and \$99.0 in 1977 representing the excess of aggregate production costs incurred on in-process and delivered units over the aggregate estimated average cost of such units (determined as described in Note 1). Substantially all of such amounts at December 31, 1978 will be recovered from firm orders.

Effective with the first quarter of 1978, the Company expanded the 747 production base beyond 400 units and applied the accounting policy applicable to mature commercial programs. Under such policy, the average cost of 747 deliveries is based on the total estimated cost of undelivered units committed to production.

Note 4 • LONG-TERM CUSTOMER FINANCING:

Long-term customer financing at December 31 consisted of—

	<u>1978</u>	<u>1977</u>
Notes receivable, less current portion	\$ 58.3	\$ 99.9
Investment in sales-type leases, less current portion	79.9	82.7
Aircraft on operating leases, at cost, less accumulated depreciation; 1978—\$108.7; 1977—\$107.8	44.5	51.2
	<u>\$182.7</u>	<u>\$233.8</u>

Principal payments receivable under long-term notes for the next five years are—

1979	\$69.5
1980	19.5
1981	12.7
1982	8.7
1983	5.2

The notes bear interest at rates of 5% to 14 1/4 %.

Note 5 • PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment at December 31 consisted of—

	<u>1978</u>	<u>1977</u>
Land	\$ 33.5	\$ 32.7
Buildings and fixtures	592.0	551.3
Machinery and equipment	810.6	685.8
Construction in progress	105.5	31.1
	<u>\$1,541.6</u>	<u>\$1,300.9</u>

Note 6 • FEDERAL TAXES ON INCOME:

The 1978 provision for Federal taxes on income includes \$373.8 representing the tax effect of timing differences which has been reduced by currently refundable taxes of \$98.9. The timing differences and the refundable taxes arise primarily from the utilization for tax purposes of the completed contract method of accounting for long-term contracts. Refundable taxes have been offset against Federal income taxes payable. The provision for Federal taxes on income for 1977 included \$143.2 of taxes currently payable and \$4.1 representing the tax effect of timing differences. The provision for 1978 and 1977 has been reduced by investment tax credit amortization of \$13.8 and \$11.4.

The provision for Federal taxes on income is less than that

which results from application of the statutory corporate tax rate because such provision has been reduced by the investment tax credit amortization and by \$10.0 (\$.23 per share) in 1978 and \$7.5 (\$.18 per share) in 1977 applicable to earnings of the Company's Domestic International Sales Corporation (DISC) subsidiaries, since management intends to indefinitely postpone payment of such taxes through the reinvestment of undistributed earnings in export-related assets. Cumulative undistributed DISC earnings for which Federal income taxes have not been provided amount to approximately \$124.8.

The tax effect of timing differences principally results from—

	<u>1978</u>	<u>1977</u>
Completed contract method for long-term contracts	\$385.1	\$ —
Commercial and U.S. Government program costs	(11.0)	(1.2)
Deferred DISC earnings not indefinitely postponed	(2.3)	10.4
Long-term aircraft financing	4.6	(4.9)
Other	(2.6)	(.2)
	<u>\$373.8</u>	<u>\$ 4.1</u>

The use of the completed contract method for tax purposes results in deferral of the payment of income taxes; however, it is not expected to result, under present tax laws, in any significant increase or decrease in income taxes ultimately payable.

Income taxes have been settled with the Internal Revenue Service for all years through 1972. In connection with the audit of the Company's Federal income tax returns for the years 1973 through 1975, the Internal Revenue Service is reviewing the Company's practices relative to commissions and consulting fees paid in connection with sales to foreign customers. The Company has been informally advised by representatives of the Internal Revenue Service that they propose to recommend that deductions for certain of such payments be disallowed and that other adjustments be made. The Company cannot predict at this time the amount of additional taxes or penalties, if any, that may be asserted. It is the Company's position that the payments are properly deductible and that adequate provision for income taxes has been made for the years 1973 through 1978.

Note 7 • NOTES PAYABLE AND LONG-TERM DEBT:

Short-term notes of \$2.5 at December 31, 1978 bearing interest at 1/4 % above the Canadian commercial bank prime rate are payable by a Canadian subsidiary under lines of credit aggregating \$6.0. No borrowings were outstanding at December 31, 1978 under agreements with a group of U.S. banks which provide open lines of credit of \$100.0 bearing interest at the commercial bank prime rate. Cash balances are maintained under informal compensating balance arrangements in connection with the lines of credit. No restrictions are imposed on the use of these funds.

Notes Continued

Long-term debt at December 31 consisted of—

	1978	1977
6 $\frac{3}{8}$ % notes payable	\$89.0	\$ 99.7
5% notes payable	14.2	17.0
Other notes	1.7	.9
Less current maturities	(13.5)	(13.5)
	<u>\$91.4</u>	<u>\$104.1</u>

The 6 $\frac{3}{8}$ % notes, maturing in 1986, are payable to a group of institutional lenders. Required annual payments are \$10.8.

The 5% notes, maturing in 1983, are payable to an insurance company in annual installments of \$2.8.

The Company has complied with the restrictive covenants contained in the various debt agreements.

Aggregate maturities on long-term debt for each of the next five years are as follows—

1979	\$13.5
1980	15.2
1981	13.5
1982	13.5
1983	14.0

Note 8 • RETIREMENT PLANS:

Costs and expenses for 1978 and 1977 included retirement plan costs of \$126.5 and \$90.6. The increase resulted from higher employment levels and changes to the principal plan providing for improved benefits.

At December 31, 1978, actuarially determined vested benefits exceeded retirement plan assets by approximately \$204.0.

Note 9 • RESEARCH, DEVELOPMENT, GENERAL AND ADMINISTRATIVE EXPENSES:

Expenses charged directly to earnings as incurred include—

	1978	1977
Research and development	\$276.1	\$221.6
General and administrative	166.6	141.5

Note 10 • STOCKHOLDERS' EQUITY:

Stockholders' equity at December 31 consisted of—

	1978	1977
Common stock, par value \$5 a share		
Authorized, 75,000,000 shares		
Issued at stated value, 43,377,776 shares	\$ 555.8	\$ 553.9
Retained earnings	923.7	684.0
	<u>1,479.5</u>	<u>1,237.9</u>
Less treasury stock, at cost, 1978—672,429 shares, 1977—762,069 shares	5.9	6.6
	<u>\$1,473.6</u>	<u>\$1,231.3</u>

At the annual meeting on May 2, 1977, the stockholders approved an increase in the number of authorized shares of

common stock from 40,000,000 to 75,000,000. On August 1, 1977, the Board of Directors authorized a 2-for-1 stock split. The number of shares and per share data have been restated accordingly.

The Company has authorized 10,000,000 shares of \$1 par preferred stock, none of which has been issued.

Changes in common stock issued and treasury stock for the two years ended December 31 were—

	Treasury stock		Common stock issued	
	Shares	Amount	Shares	Amount
Balance, January 1, 1977	904,198	\$7.9	43,377,776	\$444.4
Amount transferred from retained earnings in connection with 2-for-1 stock split (\$5 per share par value for new shares)				108.4
Treasury shares issued for exercise of stock options	(142,129)	(1.3)		1.1
Balance, December 31, 1977	<u>762,069</u>	<u>6.6</u>	<u>43,377,776</u>	<u>553.9</u>
Treasury shares issued for exercise of stock options	(89,640)	(.7)		1.9
Balance, December 31, 1978	<u>672,429</u>	<u>\$5.9</u>	<u>43,377,776</u>	<u>\$555.8</u>

Amendments to the stock option plan providing for the granting of stock appreciation rights were approved by the stockholders in 1978. Stock appreciation rights entitle the optionee, subject to certain conditions, to surrender the related option or portion of the option and receive cash and/or shares of the Company's stock having a value equal to the appreciation of the option. To the extent that the market value of the Company's stock exceeds the price of exercisable options subject to stock appreciation rights, changes in market value are reflected in costs and expenses each year.

At December 31, 1978, options for 809,833 shares of the Company's stock at prices ranging from \$6.63 to \$30.13 were outstanding, of which 181,283 shares were exercisable. Stock appreciation rights on 266,896 shares, of which 109,476 shares were exercisable, relate to outstanding options at December 31, 1978. During 1978, options for 120,700 shares were granted and options for 8,050 shares were cancelled; options for 94,126 shares were surrendered for cash on exercise of stock appreciation rights. Additional options for 778,170 shares are available for grant under the present stock option plan, and a new plan adopted by the stockholders in 1978.

Note 11 • CONTINGENT LIABILITIES:

Substantially all of the Company's contracts with the U.S. Government are subject to renegotiation under The Renegotiation Act of 1951 or the excess profits provisions of The Vinson Act of 1934. Renegotiation Board proceedings for all years through 1971 have been concluded. The Company does not know and cannot predict what the Board's actions will be for 1972 and subsequent years. The provisions of The Vinson Act apply only to contracts entered into subsequent to the expiration of The Renegotia-

tion Act as of September 30, 1976. The Vinson Act provisions are currently under review by the Internal Revenue Service and the continuation of renegotiation is under consideration by the Congress. In view of these uncertainties, and the belief of the Company that no excessive profits were realized, no provision for renegotiation or excess profits refunds has been made for the years 1972 through 1978.

The Company is engaged in various legal proceedings which in some instances involve claims for substantial amounts. Most of these claims are covered by insurance, and the Company does not anticipate that the amounts, if any, which may be required to be paid by the Company will be material.

Note 12 • INDUSTRY SEGMENT INFORMATION:

The Company operates principally in two industries, (1) transportation equipment and related services, and (2) missiles and space. Operations in transportation equipment and related services primarily involve production and sale of such equipment and services to both commercial and military customers. Operations in missiles and space primarily involve production and sale of various offensive and defensive missiles, and space exploration products.

Export sales by geographic area for the years ended December 31 consisted of—

	1978	1977
Europe	\$ 912.3	\$ 411.4
Asia	788.1	696.4
Africa	223.4	183.8
Western Hemisphere	175.1	48.6
Oceania	127.7	128.9
	<u>\$2,226.6</u>	<u>\$1,469.1</u>

Financial information by industry segment is summarized as follows—

	Identifiable assets		Depreciation		Capital expenditures, net	
	1978	1977	1978	1977	1978	1977
Transportation equipment and related services—						
Commercial	\$1,014.5	\$ 900.8	\$51.5	\$41.1	\$185.4	\$56.4
Military	242.4	256.9	18.1	17.4	35.9	21.3
	<u>1,256.9</u>	<u>1,157.7</u>	<u>\$69.6</u>	<u>\$58.5</u>	<u>\$221.3</u>	<u>\$77.7</u>
Missiles and space	135.3	99.6	\$ 8.9	\$ 7.0	\$ 25.2	\$10.2
Other industries	138.7	76.7				
	<u>1,530.9</u>	<u>1,334.0</u>				
Corporate assets (principally cash and short-term investments)	2,042.3	1,106.4				
Consolidated	<u>\$3,573.2</u>	<u>\$2,440.4</u>				

See page 19 for summary of revenues and earnings contribution by industry segment.

Note 13 • QUARTERLY FINANCIAL DATA (unaudited):

Quarterly results of operations for 1978 and 1977 are summarized on page 29.

Note 14 • REPLACEMENT COST INFORMATION (unaudited):

In compliance with Securities and Exchange Commission (SEC) regulations, the Company has included certain estimated replacement cost data in the Form 10-K annual report filed with the SEC.

Disclosures with respect to inventories and cost of sales are not applicable because most of the Company's inventories relate to products built to specifications under binding contracts, and inflation does not result in inventory profits under these circumstances.

Although the cumulative impact of inflation over a number of years results in indicated higher costs for replacement of existing plant and equipment, such costs would be partially offset by increased productivity and the reduction of other costs attendant to overall efficiencies inherent in replacing existing productive capacity. Disclosures with respect to replacement cost of productive capacity represent, in the Company's view, a reasonable approximation of the information required by the SEC.

Accountants' Report

Touche Ross & Co.

Board of Directors and Stockholders
The Boeing Company
Seattle, Washington

We have examined the consolidated statements of financial position of The Boeing Company and subsidiaries as of December 31, 1978 and 1977, and the related statements of net earnings and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Boeing Company and subsidiaries at December 31, 1978 and 1977, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Also, in our opinion, the action of the Board of Directors on February 5, 1979, in setting aside the sum of \$5,000,000 for the year 1978 under the Incentive Compensation Plan for officers and employees, is in conformity with the provisions contained in the first paragraph of Section 2 of such plan.

Seattle, Washington
February 5, 1979

Touche Ross & Co.
Certified Public Accountants

Five-Year Comparative Financial Data

Dollars in millions except per share data.

Per share data restated for 2-for-1 stock split.

Year ended December 31,

SUMMARY OF OPERATIONS

	1978	1977	1976	1975	1974
Sales	\$5,463.0	\$4,018.8	\$3,918.5	\$3,718.9	\$3,730.7
Other income	184.8	105.8	71.4	50.8	47.3
	<u>5,647.8</u>	<u>4,124.6</u>	<u>3,989.9</u>	<u>3,769.7</u>	<u>3,778.0</u>
Costs and expenses	5,056.1	3,797.0	3,815.0	3,642.4	3,660.3
Interest and debt expense	7.7	11.4	12.3	14.6	15.3
	<u>5,063.8</u>	<u>3,808.4</u>	<u>3,827.3</u>	<u>3,657.0</u>	<u>3,675.6</u>
Earnings before taxes	584.0	316.2	162.6	112.7	102.4
Federal taxes on income	261.1	135.9	59.7	36.4	30.0
Net earnings	<u>\$ 322.9</u>	<u>\$ 180.3</u>	<u>\$ 102.9</u>	<u>\$ 76.3</u>	<u>\$ 72.4</u>
Average number of common shares outstanding	42,673,012	42,572,753	42,435,234	42,380,250	42,375,210
Per share—					
Net earnings	\$7.57	\$4.24	\$2.42	\$1.80	\$1.71
Cash dividends	\$1.95	\$.85	\$.62½	\$.50	\$.37½

Management's Discussion and Analysis of the Summary of Operations

Management's discussion and analysis of 1978 results compared with 1977 are set forth in the Financial Review section of this report under Sales, Earnings and Dividends, pages 18 and 19. Management's comments relative to 1977 results compared with 1976 are summarized as follows:

Sales in 1977 increased \$100 million from the prior year. Commercial transportation equipment sales were somewhat below 1976 levels by reason of reduced aircraft and spares deliveries and lower support, service and modification billings. Fourth quarter deliveries were adversely affected because of the 45-day strike by the International Association of Machinists. Military transportation equipment sales were above 1976 levels, primarily reflecting

substantially higher E-3A (AWACS) sales and higher helicopter sales, partially offset by lower sales under military modification programs. Missile and space sales increased slightly, with lower Minuteman sales more than offset by higher sales levels under the Air Launched Cruise Missile, Inertial Upper Stage space booster, and Roland short-range air defense missile programs.

Research and development expenses, including basic engineering and planning costs on commercial programs, and general and administrative expenses charged directly to earnings in 1977 were respectively \$31 million and \$20 million higher than in 1976.

The improved earnings for 1977 were achieved primarily through continued favorable performance on major programs, higher than

previously anticipated orders for jet transports which resulted in increasing production rates, a 48% increase in other income (primarily interest income) and lower interest and debt expense.

The 1977 provision for federal taxes on income was \$135.9 million compared with \$59.7 million in 1976. While pretax income increased 94% compared with 1976, the provision for federal taxes on income increased 128%. The higher effective tax rate resulted from the significant increase in pretax earnings while there was a decrease in total tax benefits from investment tax credits and domestic international sales corporations.

FINANCIAL POSITION AT YEAR END

	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>
Working capital	\$ 920.9	\$ 741.1	\$ 635.3	\$ 577.7	\$ 502.1
Long-term customer financing	182.7	233.8	261.3	236.9	256.0
Facilities—at cost	1,541.6	1,300.9	1,227.4	1,188.9	1,137.5
Facilities—net	583.5	400.7	373.0	372.8	369.1
Investments and other assets	30.3	34.9	4.3	4.1	6.8
Long-term debt	91.4	104.1	117.7	133.0	149.0
Deferred taxes	105.9	41.1	37.0	22.0	7.0
Deferred investment credit	46.5	34.0	34.4	26.3	23.0
Stockholders' equity	1,473.6	1,231.3	1,084.8	1,010.1	955.0
—Per share	\$ 34.51	\$ 28.89	\$ 25.54	\$ 23.83	\$ 22.55
Common shares outstanding	42,705,347	42,615,707	42,473,578	42,395,432	42,342,976

SOURCES AND (USES) OF FUNDS

Net earnings	\$ 322.9	\$ 180.3	\$ 102.9	\$ 76.3	\$ 72.4
Depreciation of plant	85.8	71.4	67.0	67.2	64.5
Deferred items	77.3	3.7	23.1	18.3	14.9
Long-term debt	(12.7)	(13.6)	(15.4)	(16.0)	(15.8)
Cash dividends	(83.2)	(36.2)	(26.5)	(21.2)	(15.9)
Plant additions, net	(268.6)	(99.1)	(67.2)	(70.8)	(84.1)
Customer financing	51.1	27.5	(24.5)	19.1	5.1
Other	7.2	(28.2)	(1.8)	2.7	(2.8)
Increase in working capital	<u>\$ 179.8</u>	<u>\$ 105.8</u>	<u>\$ 57.6</u>	<u>\$ 75.6</u>	<u>\$ 38.3</u>

OTHER DATA

Firm backlog	\$11,153.6	\$5,917.0	\$3,959.9	\$3,728.8	\$3,824.4
Salaries and wages	1,688.5	1,246.7	1,207.1	1,222.4	1,099.0
Average number of employees	81,200	66,900	65,400	72,600	74,400
Floor area (million square feet)					
Boeing-owned	26.2	25.2	25.1	25.0	25.2
Leased	4.9	3.0	2.5	2.5	2.3
Government-owned	5.7	5.7	5.7	5.7	5.8

Quarterly Financial Data

Dollars in millions except per share data

Quarter	Sales		Costs and expenses		Net earnings		Net earnings per share	
	<u>1978</u>	<u>1977</u>	<u>1978</u>	<u>1977</u>	<u>1978</u>	<u>1977</u>	<u>1978</u>	<u>1977</u>
1st	\$1,020.4	\$ 755.9	\$ 964.2	\$ 725.1	\$ 45.2	\$ 28.2	\$1.06	\$.66
2nd	1,375.9	1,244.8	1,276.3	1,164.7	77.5	56.4	1.82	1.33
3rd	1,448.4	891.3	1,343.5	849.0	92.6	39.9	2.17	.94
4th	1,618.3	1,126.8	1,472.1	1,058.2	107.6	55.8	2.52	1.31
	<u>\$5,463.0</u>	<u>\$4,018.8</u>	<u>\$5,056.1</u>	<u>\$3,797.0</u>	<u>\$322.9</u>	<u>\$180.3</u>	<u>\$7.57</u>	<u>\$4.24</u>

Board of Directors

William M. Batten
*Chairman of the Board
& Chief Executive Officer
The New York Stock Exchange*

Harold J. Haynes
*Chairman of the Board
& Chief Executive Officer
Standard Oil Company of Calif.
(Petroleum Products)*

H. W. Haynes
*Executive Vice President
Chief Financial Officer
The Boeing Company*

Stanley Hiller, Jr.
*Chairman of the Board
Baker International Corp.
(Mining and Oil Equipment)*

David Packard
*Chairman of the Board
Hewlett-Packard Company
(Electronics)*

Charles M. Pigott
*President
& Chief Executive Officer
PACCAR Inc
(Transportation Equipment)*

William G. Reed
*Managing Partner
Simpson Reed & Co.
(Management of Capital)*

David E. Skinner
*President
Skinner Corporation
(Diversified Investments)*

M. T. Stamper
*President
The Boeing Company*

George H. Weyerhaeuser
*President & Chief Executive Officer
Weyerhaeuser Company
(Forest Products)*

T. A. Wilson
*Chairman of the Board
Chief Executive Officer
The Boeing Company*

HONORARY CHAIRMAN:

William M. Allen

DIRECTORS EMERITI:

Crawford H. Greenewalt
Edward C. Wells

COMMITTEES OF THE BOARD

Audit

Charles M. Pigott, Chairman
William M. Batten
David Packard

Compensation

H. J. Haynes, Chairman
William G. Reed
D. E. Skinner
George H. Weyerhaeuser

Nominating

William M. Batten, Chairman
H. J. Haynes
Stanley Hiller, Jr.

Members of Boeing Board of Directors in 767 interior mockup

Standing: Harold J. Haynes, Stanley Hiller, Jr., T. A. Wilson, M. T. Stamper, H. W. Haynes, William G. Reed.
Seated: George H. Weyerhaeuser, David E. Skinner, David Packard, Charles M. Pigott, William M. Batten.



Organization and Management

CORPORATE OFFICES

T. A. Wilson
*Chairman of the Board
Chief Executive Officer*

M. T. Stamper
President

H. W. Haynes
*Executive Vice President
Chief Financial Officer*

R. R. Albrecht
*Vice President
Counsel and Secretary*

O. C. Boileau
*Vice President; President
Boeing Aerospace Company*

E. H. Boullioun
*Vice President; President
Boeing Commercial Airplane Co.*

W. L. Hamilton
*Vice President, Planning and
International Business*

V. F. Knutzen
Vice President, Controller

R. B. Light
*Vice President
Washington, D.C., Office*

S. M. Little
*Vice President
Industrial and Public Relations*

W. M. Maulden
Senior Vice President

H. W. Neffner
*Vice President
Contract Negotiations and Pricing*

J. B. L. Pierce
Treasurer

B. D. Pinick
Vice President, Contracts

Clyde Skeen
Senior Vice President

J. E. Steiner
*Vice President
Corporate Product Development*

R. W. Tharrington
*Vice President; President
Boeing Computer Services Co.*

R. W. Welch
*Vice President;
Executive Vice President
Boeing Commercial Airplane Co.*

BOEING COMMERCIAL AIRPLANE COMPANY

Renton, Washington

E. H. Boullioun
President

R. W. Welch
Executive Vice President

BOEING AEROSPACE COMPANY

Kent, Washington

O. C. Boileau
President

J. H. Goldie
Executive Vice President

BOEING VERTOL COMPANY

Philadelphia, Pennsylvania

H. N. Stuverude
President

O. H. Smith
Executive Vice President

BOEING WICHITA COMPANY

Wichita, Kansas

L. D. Alford
President

A. M. S. Goo
*Vice President
Military Systems Development
and Management*

BOEING ENGINEERING AND CONSTRUCTION COMPANY

Tukwila, Washington

H. K. Hebelar
President

BOEING COMPUTER SERVICES COMPANY

Morristown, New Jersey
and Kent, Washington

R. W. Tharrington
President

BOEING MARINE SYSTEMS

Renton, Washington

R. E. Bateman
Vice President, General Manager

SEATTLE SERVICES DIVISION

Seattle, Washington

A. W. Carter, Jr.
General Manager

GENERAL COUNSEL

Perkins, Coie, Stone, Olsen & Williams

GENERAL AUDITORS

Touche Ross & Co.

TRANSFER AGENT AND REGISTRAR

The First National Bank of Boston

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First National Bank of Boston
Shareholder Services Division
Post Office Box 644
Boston, Massachusetts 02102
Tel: 617-434-6615

Other offices where hand delivery of certificates for transfer may be made:

First National Bank of Boston
100 Federal Street, Floor 1-B
Boston, Massachusetts

FNB Financial Co.
1 Wilshire Boulevard, 8th Floor
Los Angeles, California
Tel: 213-627-4361

FNB Clearance Corporation
61 Broadway, 7th Floor
New York, N.Y.
Tel: 212-422-1350 or
212-695-2370, Ext. 6615

THE BOEING COMPANY

General Offices:

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